

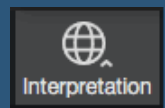


CANNABIS TAX POLICY DISCUSSION

FEBRUARY 10, 2022

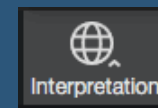


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AGENDA

- Introductions
- Previous Board actions
- Cannabis legislative history
- Revenue strategies
- Future trends
- Overview of tax ordinance structure
- Review tax rates and the cumulative tax impact
- Tax implementation issues
- Timeline and next steps
- Public comment

INTRODUCTIONS



- County Staff
 - Rissa Japlit, Office of Financial Planning
 - Brian Hagerty, Finance & General Government Executive Office
 - Conor McGee, Planning & Development Services
 - Brent Panas, Planning & Development Services
 - Andrew Strong, Office of Equity & Racial Justice
- HdL Staff:
 - David McPherson, Compliance Director
 - Ajay Kolluri, Deputy Director of Policy and Audits
 - Mark Lovelace, Senior Policy Advisor

PREVIOUS ACTIONS



BOARD ACTION

- **March 15 & 22, 2017:** Adoption of ordinance banning medical and commercial cannabis activities in the unincorporated County.
- **January 27, 2021:** Board directs staff to develop and implement commercial cannabis ordinances, regulations, and programs with a social equity component. Additionally, staff directed to engage a consultant to advise on tax options.

STAFF ACTION

- **November 2021:** County contracts with HdL companies to develop a commercial cannabis tax strategy and ordinance with potential to be placed on the November ballot, if approved.
 - HdL to conduct a fiscal analysis to inform the tax rates and to provide revenue projections
 - HdL to conduct 3 community workshops to gather public input to inform the fiscal analysis and the tax measure.

CALIFORNIA CANNABIS LAWS



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2015-17

2018-19

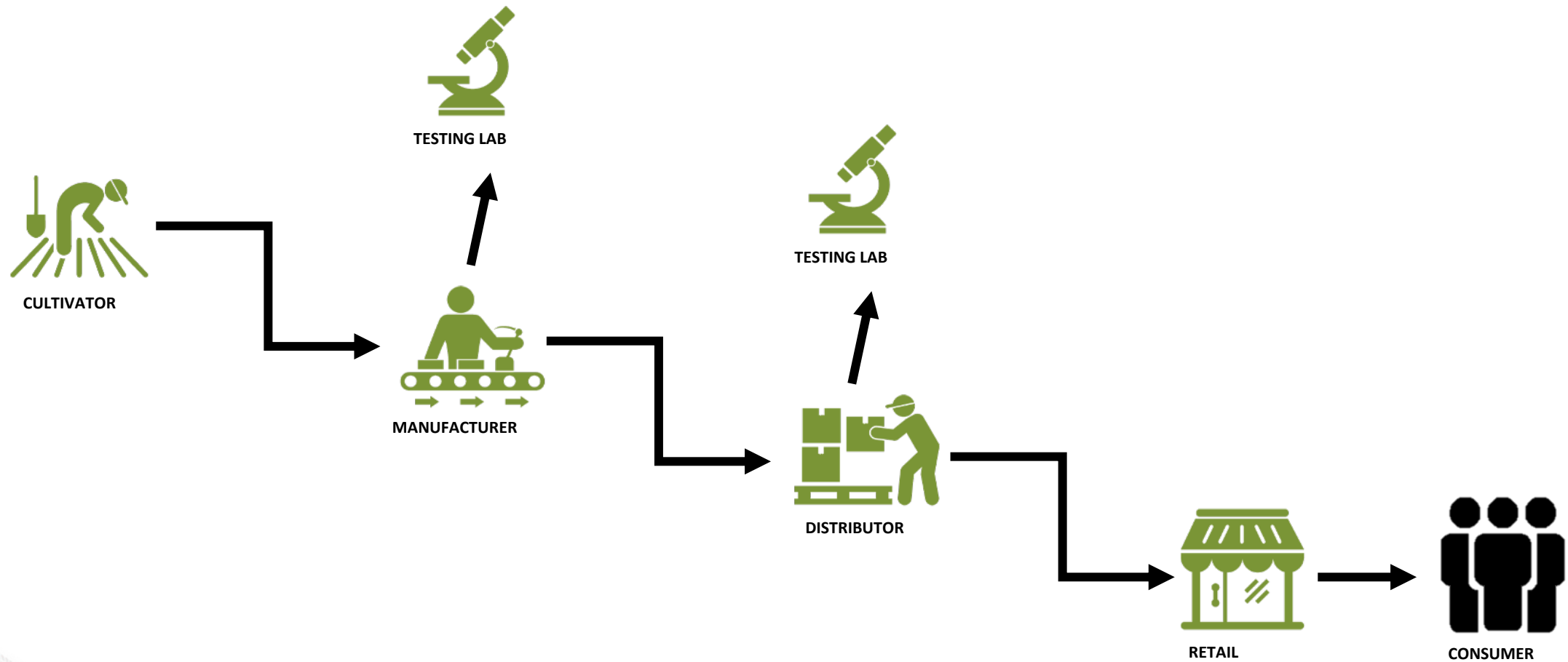
2020-22

- Medical Cannabis
- Regulation and Safety Act (MCRSA)
- Prop 64 (AUMA)
- Trailer Bill SB 94
- Medicinal & Adult Use Cannabis Regulation and Safety Act (MAUCRSA)

- State Regulations finalized Jan 2019
- SB 1459 Established Provisional Licenses
- AB 97 and SB 97 provided additional revision to regulations

- Farm Bill Act 2018-Hemp
- AB 1525 Banking
- AB 45 -Hemp Law
- Governor declares cannabis “Essential Services” during COVID 19
- DCC Funds \$100M for license processing and Social Equity Programs

CANNABIS BUSINESS TYPE CATEGORIES



CANNABIS LICENSES IN CALIFORNIA BY TYPE

AS OF JANUARY 17, 2022

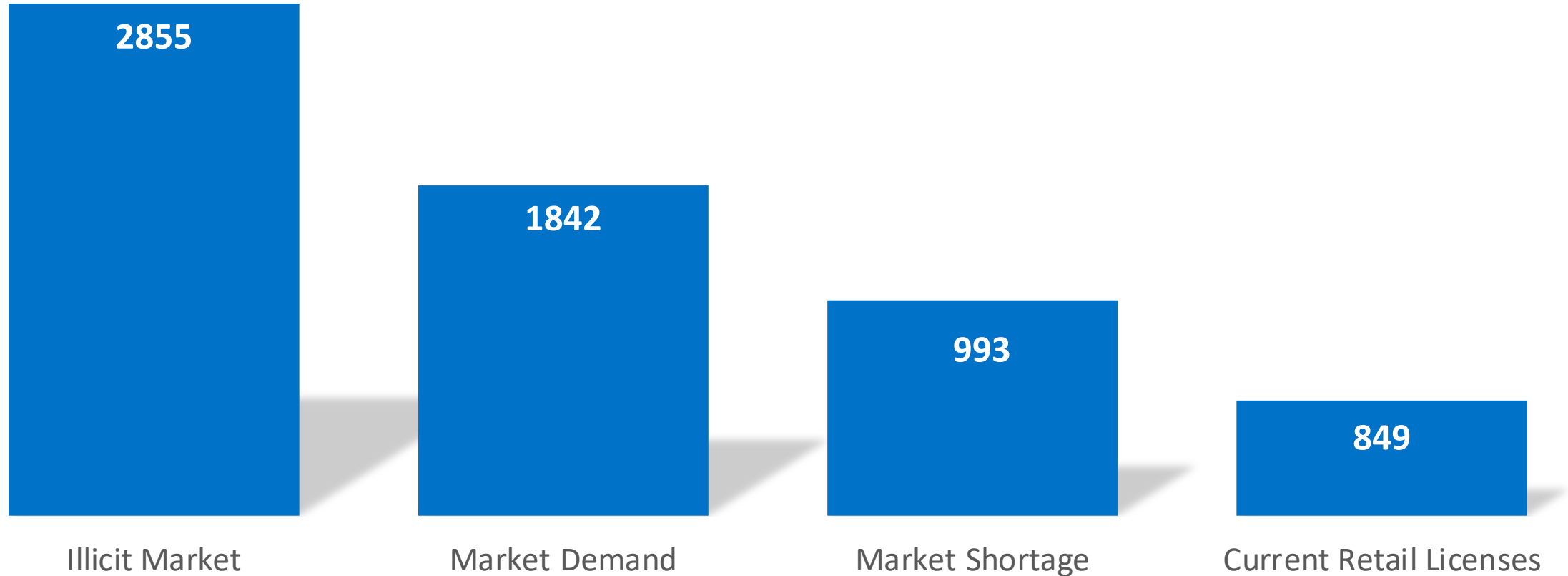
8,317	Cultivation
889	Manufacturer
849	Retailers
366	Retailers Non-Storefront
1,062	Distributors
151	Distributor Transport Only
311	Microbusinesses
44	Testing Labs
44	Cannabis Event Organizers
<hr/>	
12,033	Total



MARKET DEMAND

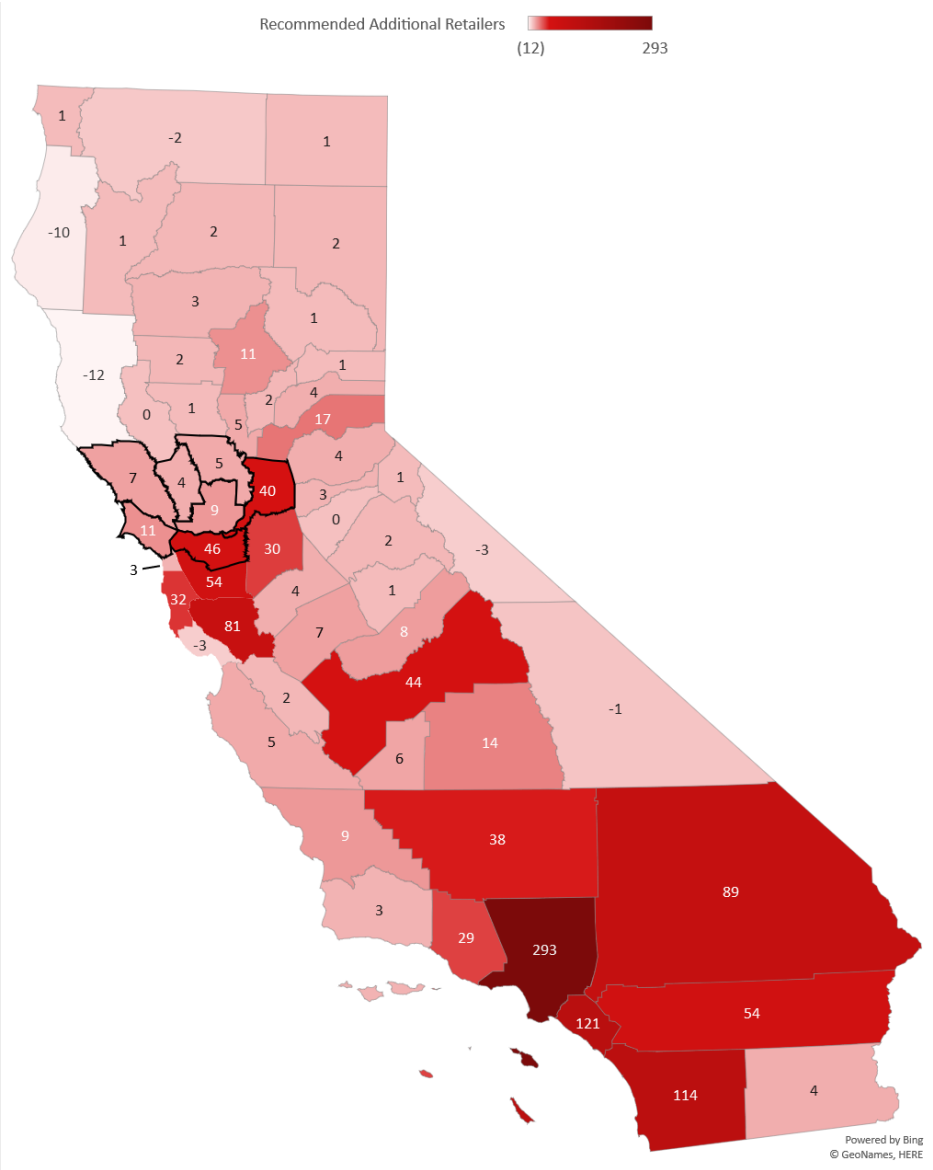


CA CANNABIS RETAIL MARKET ANALYSIS

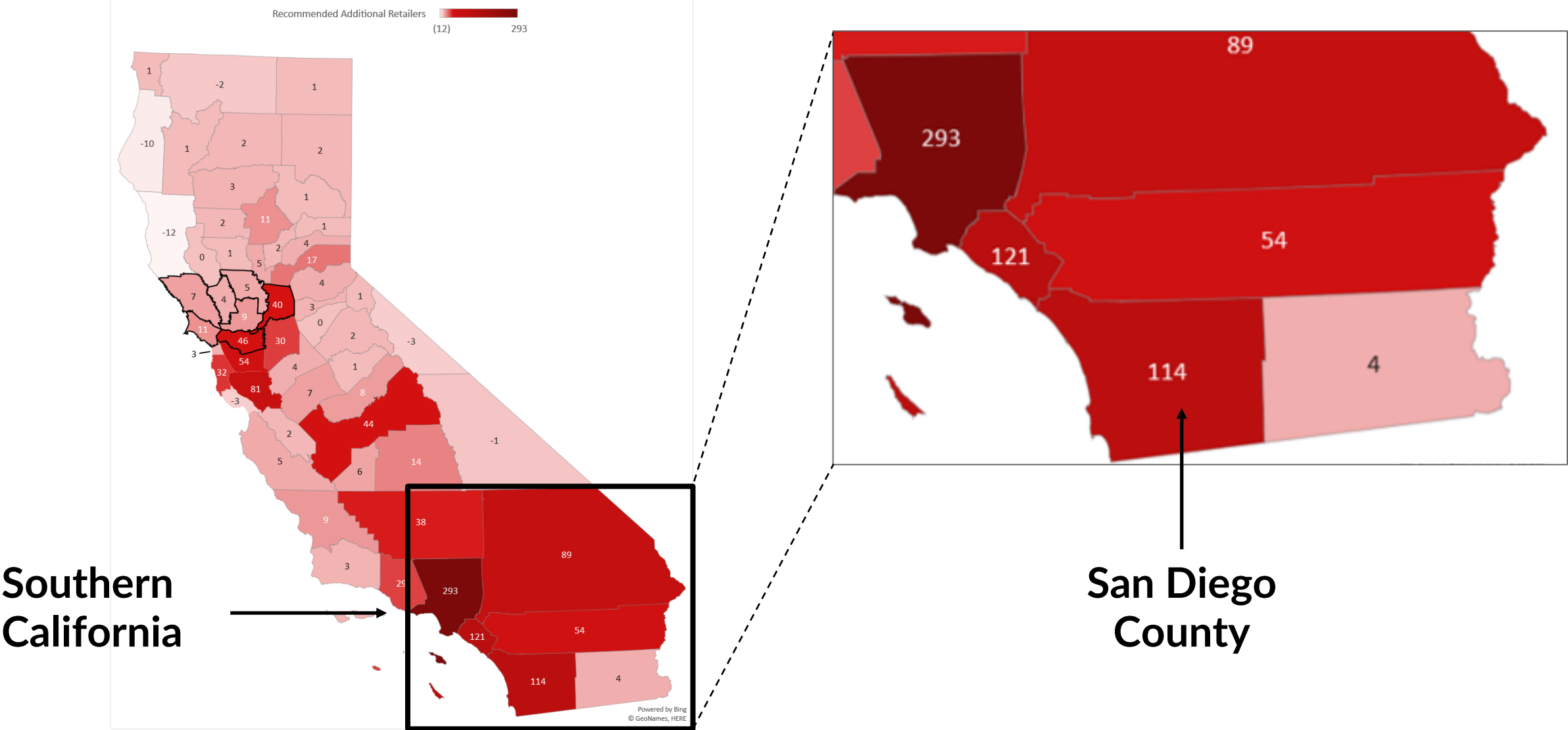




**CALIFORNIA
CANNABIS
RETAIL
MARKET
LICENSE
SHORTAGE**



CA CANNABIS RETAIL MARKET LICENSE SHORTAGE

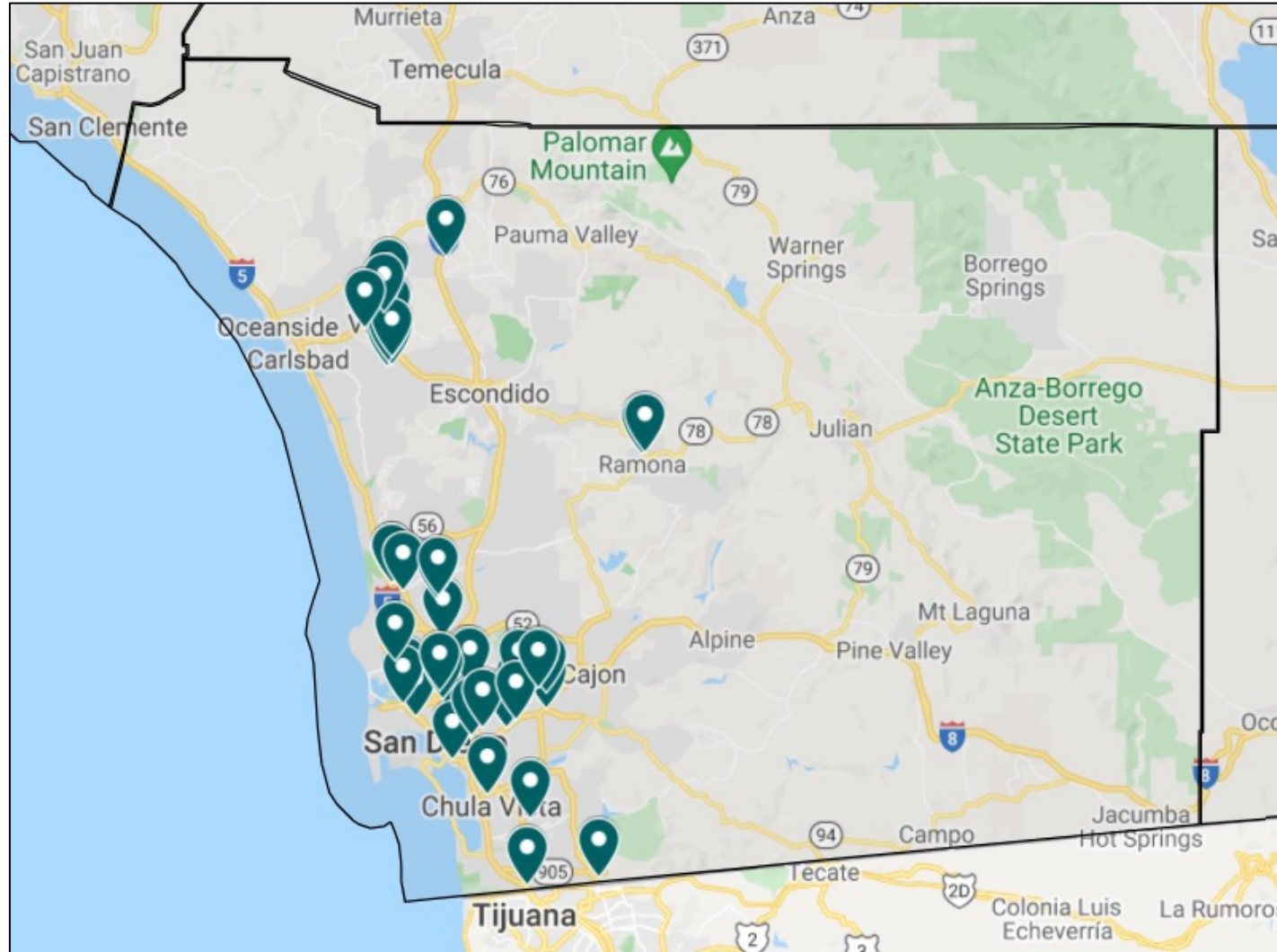


STATUS OF OTHER AGENCIES IN THE COUNTY

- Chula Vista
- Encinitas
- La Mesa
- Lemon Grove
- Oceanside
- San Diego
- Vista



LICENSED CANNABIS RETAILERS



REVENUE GENERATING STRATEGIES



Standard fee to recover
County costs



General tax only requires
50% +1 tax to general fund
vs
Special tax requires 2/3
voter approval

LOCAL CANNABIS BALLOT MEASURES



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- There have been 121 local cannabis measures on the ballot related to legalization and taxes
- California had 6 *Cannabis* tax measures on the ballot which failed. They were all special taxes or Citizen Initiatives
- Taxes should be set at rates that allow businesses to be successful and sustainable
- Hemp began to be considered as a taxable activity once the Farm Bill Act passed in 2018

REVENUE STRATEGIES



Proactive revenue strategies will provide the County the flexibility to address:

- Adult Use
- Medicinal Use
- Illicit Activity
- Legislative changes (Ex: Vaping laws)
- Regulatory changes (ex: Deliveries)
- Future Trends and Policies (Hemp regulation)

Goal: Successful Collaboration, Equitable Solutions for the County and Businesses

FUTURE TRENDS



A tax measure can be tailored to allow for changes in:

- Technology (online platforms, kiosk, etc.)
- Evolving Hemp regulations (Change in THC content)
- Potential vaping restrictions (Product Flavoring)
- Regulation of manufactured products (edibles and concentrates)
- Changes in consumer behavior such as COVID 19

POTENTIAL CHANGES IN HEMP REGULATIONS



Assembly Bill 45: Passed in 2021

- Will provide regulations allowing hemp to be infused into food/beverages/cosmetics
- Will require amendment to Sherman Food and Drug Act which currently prohibits such commercial activity
- Authorizes hemp to be manufactured, processed and sold in cannabis operations

Possible legislative response to Industry trend of hemp shops appearing in effort to avoid high costs of cannabis regulation

- Mix of Agricultural and MAUCRSA-type regulations for hemp
- Restrictions on commercial hemp sales

KEY FUNCTIONS OF A TAX ORDINANCE



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1. Authority and purpose
2. Definitions
3. Tax imposed
4. Registration, reporting and remittance of tax
5. Payments – when taxed deemed delinquent
6. Penalties and Interest
7. Relief from taxes-disaster relief
8. Amendment or modification

ISSUES TO CONSIDER FOR THE RATE OF THE TAX



- High enough to generate proceeds to offset costs
- Low enough to avoid over-taxing and *ensure sustainability*
- Ability to match tax rates with neighboring jurisdictions or region
- Recommend a temporary freeze on tax increase to stabilize market
- **Flexibility to adjust to changing market conditions and trends:**
 - County Board may increase or decrease tax rate
 - Index for inflation
 - Set minimum and maximum rates
 - Tax all cannabis categories such as cultivation, manufacturing, distribution, testing labs, retail (storefront/non-storefront), delivery services and hemp activity

TAXABLE ACTIVITY



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COMMON TAX RATES

LICENSE TYPE	RATE
Cultivation: Indoor, artificial lighting	\$10.00 SF
Cultivation: Indoor, mix lighting	\$7.00 SF
Cultivation: Outdoor	\$4.00 SF
Cultivation: Nursery	\$2.00 SF
Testing Laboratory	2% GR
Retailer/Delivery Services	6% GR
Distribution	3% GR
Manufacturing	4% GR

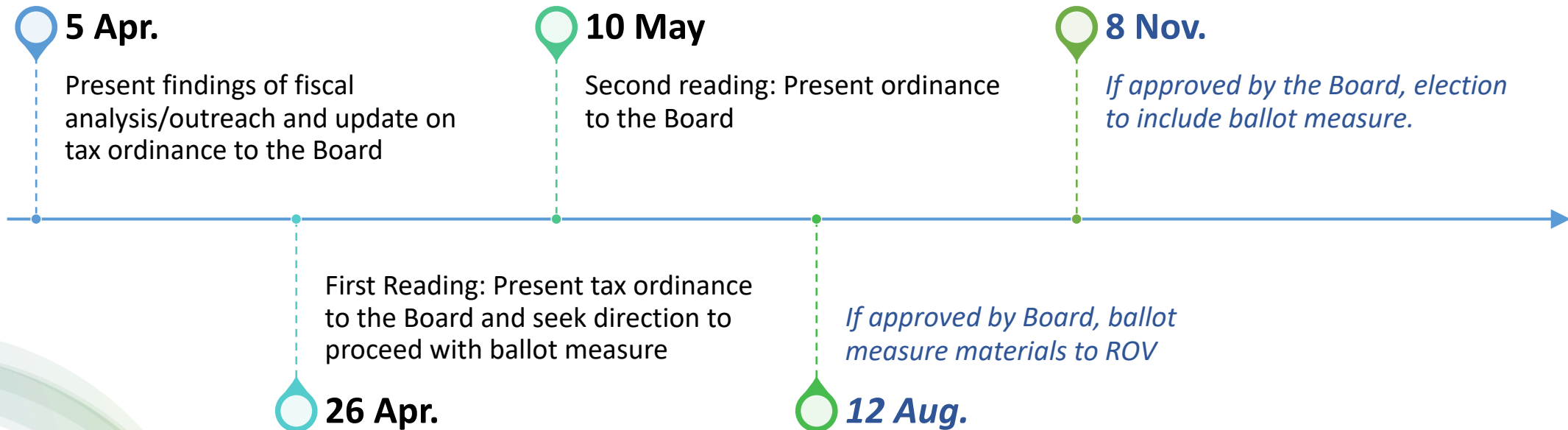
Cumulative Cannabis Taxes			
Category	Amount	Increase	Cumulative Price
Producer Price/lb	\$1,000	\$1,000	\$1,000
State Cultivation Tax/oz	\$10.08	\$161	\$1,161
Local Tax	2.50%	\$25	\$1,186
Batch Testing (with 1.0% tax)	\$75/lb, + 0.50%	\$77	\$1,263
Wholesale Price w/ Taxes		\$1,263	
Total Tax at Wholesale		\$263	
Tax as %		26.30%	
Manufacturer Markup	20.00%	\$253	\$1,516
Local Tax	2.50%	\$38	\$1,554
Total Manufacturer Price		\$1,554	
Total Taxes at Manufacturer		\$301	
Total Tax as %		19.37%	
Distributor Markup	20.00%	\$311	\$1,864
Local Tax	2.00%	\$37	\$1,902
Total Distributor Price		\$1,902	
Total Taxes at Distributor		\$338	
Total Tax as %		17.79%	
Retailer Markup	100.00%	\$1,902	\$3,803
Local Tax	5.00%	\$190	\$3,993
State Excise Tax	15.00%	\$570	\$4,564
Total Retailer Price		\$4,564	
Total Taxes at Retail		\$1,099	
Total Tax as %		24.08%	
State Sales Tax	6.25%	\$285	\$4,849
County/District Taxes	1.50%	\$68	\$4,917
Total Taxes at Retail		\$1,453	
Total Tax as %		29.54%	
Total County Tax		7.30%	\$359

CUMULATIVE CANNABIS TAXES

(COMMON RATES)

Cultivation: 2.50%
 Manufacturing: 2.50%
 Testing: 1.00%
 Distribution: 2.00%
 Retail: 5.00%
 Cumulative Tax Rate:
 29.54%

NEXT STEPS AND TENTATIVE TIMELINE



**QUESTIONS AND
COMMENTS?**



Additional Input



The County will accept additional input until February 11 via email:

cosdpublic@sdcounty.ca.gov

With Subject: "Cannabis Taxation Program"



THANK YOU



INFORMATION NEEDS



- Are there any communities that may have a special interest or focus regarding the cannabis industry?
 - Geographic communities
 - Agricultural or industrial communities
 - Ethnic or cultural communities
- Are there industries in San Diego County that will be uniquely impacted by a licensed cannabis industry?
 - Positive impacts?
 - Negative impacts?

INFORMATION NEEDS



- Does unincorporated San Diego County have any particular issues, considerations or strengths that we should be aware of for this analysis?
- How might proximity to the border impact licensed cannabis businesses in San Diego County?
- What communities are commercial hubs in the rural areas?
- Where do residents in rural areas do their regular shopping?
- Is there anything else we should consider in our analysis?